



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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August 11, 2006

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SUBJECT: August 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections continue to significantly outperform the forecast. GFS collections totaled \$1,217.3 million in the July 11–August 10, 2006 collection period. Tax payments were \$47.6 million, 4.1 percent, above the forecast for the month. Nearly all major revenue sources were higher than expected this month. The majority of the positive variance was due to higher than expected Revenue Act taxes (sales, business and occupation, use, and public utility) which exceeded the estimate by \$31.7 million (3.2 percent) and real estate excise tax payments which were \$12.3 million (8.3 percent) above the forecast. This month's higher than expected receipts increases the cumulative variance since the June forecast to \$133.6 million.

Recent economic news has been mixed and not as good as revenue growth in the last couple of months indicates. The U.S economy added only 113,000 jobs in July. This was less than most economists had expected and less than the 124,000 jobs added in June. So far the average monthly increase in employment in 2006 is only 140,000, lower than both the 2005 average of 165,000 and the 2004 average of 175,000. The weak employment gain helped push the U.S. unemployment rate in July to 4.8 percent from 4.6 percent in June. At the state level, the job picture is a little better. Washington wage and salary employment continues to grow, although at a slower pace than earlier in the year. Washington added 5,200 jobs in June, up from 3,900 in May, but less than the 6,800 average for the year. Washington's unemployment rate remained unchanged at 5.1 percent in June. Other indicators at the national level were mixed. The Conference Board reported that its Index of Consumer Confidence increased in July for the second straight month. Despite the increase, confidence remains a little lower than earlier in the year. The Conference Board also reported that the U.S. Index of Leading Indicators increased 0.1 percent in June after declining the previous two months. The index has declined 0.3 percent over last six months.

While many economic indicators point to slower economic growth, revenue growth remains very strong. Revenue Act collections again were much stronger than expected this month. Tax payments this period primarily reflect June 2006 activity of monthly taxpayers and April through June activity of quarterly filers. Collections this month were 10.0 percent above the year-ago level (adjusting for special factors). Although this is considerably less than last month's 15.9 percent increase (revised), it remains much stronger than retail sales growth nationally and higher than the growth in state personal income. Collections for the entire second quarter of 2006 were 10.9 percent above the year-ago level. While this

was a little less than the 12.0 percent growth in the first quarter of 2006, it was much higher than expected in the forecast and not indicative of a slowing economy.

Preliminary information on tax payments by industry for the current period shows strong growth in nearly all sectors of the economy. Tax payments by firms in the retail trade and food services sector increased 7.8 percent. Last month retailers reported a 12.3 percent increase. Five of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were General merchandise stores (+20.1 percent), gas stations and convenience stores (+15.7 percent) and building materials and garden equipment retailers (+12.5 percent). Auto dealers, the largest retailing sector, reported a 1.3 percent decline; last month this sector was up 9.2 percent. Overall, tax payments of firms in non-retail trade and food services sectors were also up 11.1 percent for the month. Last month tax payments from the non-retail trade sector increased 12.3 percent. Construction remained very strong, with tax payments 20.4 percent higher than a year-ago. Last month this sector reported a 24.3 percent increase. There were some weak non-retail trade sectors including the information sector (-7.1 percent) and the finance and insurance sector (-2.4 percent.) The strength of real estate activity on overall revenue growth is again evident this month. Tax payments of firms in construction and housing related sectors increased and amazing 15.9 percent compared to a still very strong 7.9 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$16.0 million above the estimate for the month. Real estate excise tax payments were again strong and were \$12.3 million higher than expected for the month. Other major GFS taxes exceeding the estimate for the month were: liquor taxes (+\$3.2 million), the cigarette tax (+\$497,000), and the property tax (+\$101,000).

Nationally, there is mounting evidence of slowing real estate activity including a moderation of price appreciation. In the state, while there has been some moderation in growth, real estate activity in recent months has remained strong and for the most part, the level of activity remains well above what was expected in the June forecast. Real estate excise tax payments this month reflect approximately two months of activity. This is due to 2005 legislation which speeded up the transfer of the state share of real estate activity from the counties to the state. The July real estate excise tax total reflects taxable real estate activity (closings) for the month of June 2006, as well as activity (closings) for most of July (July 1 - July 27th). June activity was 9.1 percent above the year-ago level. This was down from the 15.6 percent increase the prior month but was much stronger than expected in the June forecast. Activity in July increased an estimated 2.9 percent. This was more in line with the forecast of a slowing real estate activity. Rising real estate prices continue to fuel growth in activity. For the month of June, the number of transactions were 8.2 percent lower than a year-ago (the seventh consecutive monthly decline), however, the average value per transaction increased 18.8 percent in the current month. The prior month's average value per transaction increased 19.1 percent. The price and volume information on July's taxable activity is not yet available.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$156,000 below the estimate for the month but cumulatively are \$410,000 higher than expected based on revised June payment data.

The attached Table 1 provides a comparison of collections with the June 2006 forecast for the July 11, 2006 – August 10, 2006 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
August 10, 2006 Collections Compared to the June 2006 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
July 11 - August 10, 2006				
Department of Revenue-Total	\$1,166,988	\$1,214,747	\$47,759	4.1%
Revenue Act** (1)	999,934	1,031,657	31,723	3.2%
Non-Revenue Act(2)	167,054	183,090	16,036	9.6%
Liquor Sales/Liter	9,454	12,659	3,205	33.9%
Cigarette	4,631	5,129	497	10.7%
Property (State School Levy)	(14,143)	(14,043)	101	-0.7%
Estate	0	366	366	NC
Real Estate Excise	149,374	161,720	12,346	8.3%
Timber (state share)	0	0	0	NA
Other	17,739	17,260	(479)	-2.7%
Department of Licensing (2)	2,671	2,515	(156)	-5.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,169,659	\$1,217,262	\$47,603	4.1%
Cumulative Variance Since the June 2006 Forecast (June 11, 2006 - August 10, 2006)				
Department of Revenue-Total	\$2,366,996	2,500,190	133,194	5.6%
Revenue Act** (3)	1,776,539	1,879,550	103,011	5.8%
Non-Revenue Act(4)	590,457	620,640	30,183	5.1%
Liquor Sales/Liter	22,431	24,695	2,263	10.1%
Cigarette	9,536	10,384	848	8.9%
Property (State School Levy)	287,582	288,255	672	0.2%
Estate	48	420	372	NA
Real Estate Excise	225,906	251,962	26,056	11.5%
Timber (state share)	0	(0)	(0.0)	NA
Other	44,954	44,925	(29)	-0.1%
Department of Licensing (4)	8,858	9,268	410	4.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,375,854	\$2,509,458	\$133,603	5.6%

1 Collections July 11 - August 10, 2006. Collections primarily reflect June 2006 activity of monthly taxpayers and April-June activity of quarterly filers.

2 July 2006 collections.

3 Cumulative collections, estimates and variance since the June 2006 forecast; (June 11 - August 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2006 forecast; (June & July 2006) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 2006 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
July 10, 2006 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
May 11 - June 10, 2006				
Department of Revenue-Total	\$1,285,442	\$1,285,442	\$0	0.0%
Revenue Act (1)	847,893	847,893	(0)	-0.0%
Non-Revenue Act(2)	437,550	437,550	(0)	-0.0%
Liquor Sales/Liter	12,036	12,036	(0)	-0.0%
Cigarette	5,256	5,256	(0)	-0.0%
Property (State School Levy)-net	302,297	302,297	0	0.0%
Estate	44	44	0	0.8%
Real Estate Excise	90,242	90,242	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	27,675	27,675	(0)	-0.0%
Department of Licensing (2)	5,447	6,798	1,351	24.8%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,290,890	1,292,241	\$1,351	0.1%

Cumulative Receipts: Feb. 11 - June 10, 2006 & Revisions to History

Department of Revenue-Total	\$1,285,442	\$1,285,442	\$0	0.0%
Revenue Act (3)	847,892	847,893	1	0.0%
Non-Revenue Act(4)	437,550	437,550	(0)	-0.0%
Liquor Sales/Liter	12,036	12,036	(0)	-0.0%
Cigarette	5,256	5,256	(0)	-0.0%
Property (State School Levy)-net after transfer	302,297	302,297	0	0.0%
Estate	54	54	0	0.7%
Real Estate Excise	90,242	90,242	(0)	-0.0%
Timber (state share)	0	(0)	(0)	NA
Other	27,665	27,665	(0)	-0.0%
Department of Licensing (4)	5,402	6,798	1,396	25.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,290,844	\$1,292,241	\$1,397	0.1%

Preliminary. Reported in the July 10, 2006 collection report.

1 Collections June 11 - July 10, 2006. Collections primarily reflect May 2006 business activity of monthly taxpayers.

2 June 1-30, 2006 collections.

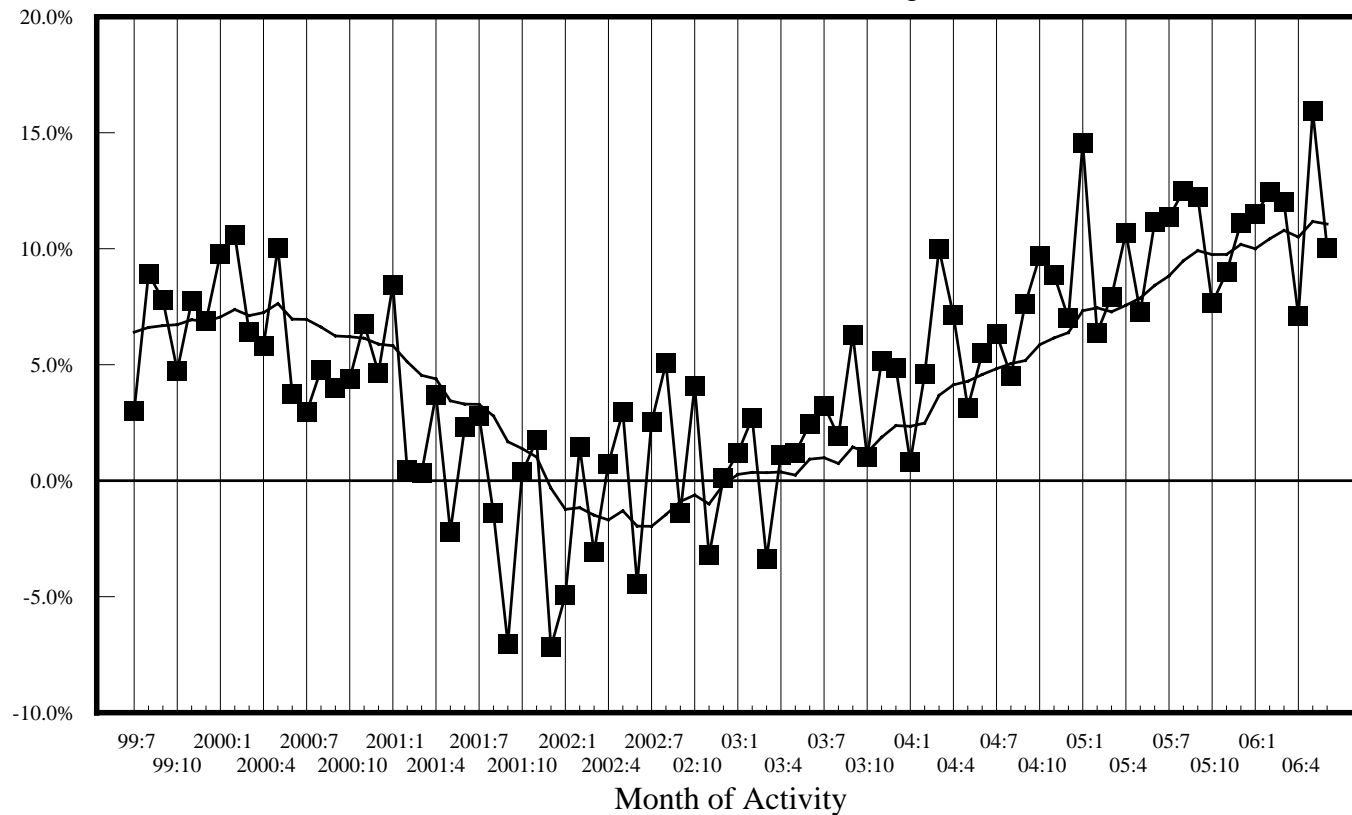
3 Cumulative receipts since the June 2006 forecast: June 11-July 10,2006 & revisions to history.

4 Cumulative receipts since the June 2006 forecast (June 2006) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— Ave. Growth (twelve month moving average)

*adjusted for new legislation and special factors